

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

The Application of)
Kentucky Frontier Gas, LLC) Case No.
for Approval of Financing) 2008-

APPLICATION

Kentucky Frontier Gas, LLC (Kentucky Frontier), by counsel, petitions the Commission for an order approving the assumption of debt of several natural gas utilities and the financing of new debt by a combined utility company pursuant to KRS 278.300. An application for approval of the transfer of these utilities to Frontier was approved in Case No. 2005-00348 dated October 28, 2005. Frontier now seeks approval of the financing plan proposed in this Application.

1. Kentucky Frontier Gas, LLC is a Colorado company authorized to do business in Kentucky. Its address is 4891 Independence St., Suite 200, Wheat Ridge CO 80033. Managing partners are Robert Oxford and Steven Shute. A copy of its articles of organization was filed in Case No. 2005-00348 and its Certificate of Good Standing is filed as exhibit 1.

2. Kentucky Frontier is a utility as defined by KRS 278.010(3). It operates Floyd County Gas and Mike Little Gas Company pursuant to contracts, attached as exhibit 2.

3. Kentucky Frontier received approval for the transfer of the utilities listed below in Case No. 2005-00348. Copy attached as exhibit 3. Kentucky

Frontier now seeks approval of proposed financing, capital structure and any other approval needed to complete ownership and operation of these entities.

4. The utilities involved in the transfer and financing are:

a. **Belfry Gas, Inc.** Incorporated in 1969, Belfry is owned by JW Kinzer and has about 500 customers in eastern Pike County, from Belfry to the border near Williamson, WV. The owner of Belfry Gas will transfer the assets of the gas distribution entity, including farm tap customers served through Alert Gas System, but will retain some of the transmission pipelines and the Belfry name.

b. **Floyd County Gas.** Originally incorporated as Ohio-Kentucky Utilities in 1969, the system was bankrupted and assets taken over by Floyd County ca 1979. Since then, the system has been operated by a non-profit entity **East Kentucky Utilities** (EKU) under contract with the County. In April 2005, Floyd County placed the assets up for public bid, and accepted the offer by Frontier partners. The purchase of assets does not include EKU. This system serves about 850 customers in Floyd County from Prestonsburg toward Pikeville.

c. **Elam Utility Company, Inc.** Incorporated in 1936, this gas-only utility is now owned by Wilma Ison. This utility serves about 430 customers, mostly in the West Liberty community in Morgan County.

d. **Mike Little Gas Company** Incorporated in 1964, company is owned by the heirs of Mike Little. This utility serves about 350 customers, mostly in the Melvin community in southwest Floyd County.

5. No rate adjustment is being proposed at this time and no acquisition adjustment is being requested at this time. Kentucky Frontier anticipates these general rates will stay in effect for 1 to 2 years. Kentucky Frontier plans to eventually file a consolidated rate case and serve all customers through a single utility brand with a single rate structure.

6. The consolidation of these utilities is expected to create a viable sized utility that will provide financial stability. Many utility functions - billing, accounting, customer calls, emergency response, operator training and regulatory compliance – will be enhanced by a central organization.

7. Kentucky Frontier expects to reduce operating costs by consolidating functions within the combined utility. The new utility will have a viable capital structure and will be able to service its debt, which is not being done by most of these companies. This consolidation will benefit the customers by allowing adequate funds for operations, stable financial operations and reduced threat of bankruptcy. A stronger utility will have the ability to expand its customer base with the potential for reduced rates and less frequent rate increases. These operational savings are reflected in the pro forma statement filed as exhibit 4.

8. Upon finalization of acquisition, Elam and Mike Little customers will continue to be served under those operating names, rates and tariffs. Customers of East Kentucky Utilities and Belfry Gas will be served under the “Kentucky Frontier Gas” name, but at the current rates and tariffs of those companies.

9. Kentucky Frontier will hold all assets and liabilities of all companies acquired.

10. Kentucky Frontier is a limited liability company formed to acquire Kentucky gas utilities. Information on members is contained in exhibit 5.

11. Kentucky Frontier pro forma financial information is included in exhibit 4.

12. The most recent PSC Annual Reports for Belfry, Elam, B&H Gas Company, Mike Little and East Kentucky Utilities are incorporated by reference.

13. The capital structure of Kentucky Frontier will consist of \$1,160,000 or 40% in cash equity contributed toward the acquisition, along with \$1,700,000 or 60% long-term debt.

14. Most of the existing long-term debt for the affected utilities is currently through Gas System Restoration and Development Project (GSRP) and Kentucky Infrastructure Agency (KIA) programs administered by the Governor's Office of Local Development (GOLD). For simplicity, all such loans are referred to as GOLD loans and are attached as exhibit 6. Frontier has an agreement with GOLD that the security interests for Mike Little, Elam and Floyd County systems along with the security interests for B&H Gas Company and Johnson County Gas Company will be assigned to Kentucky Frontier for \$800,000. Frontier originally agreed to pay GOLD \$955,000 for five gas companies including Johnson County. However, that amount was reduced to reflect the uncertain legal status of Johnson County due to the recent bankruptcy filing by Johnson County. Frontier

anticipates a separate application to deal with the acquisition and financing of that company at some time in the future.

15. The utility debt acquisitions have been approved by GOLD. A copy of the Asset Purchase Agreement is attached as exhibit 7. As part of the total project cost, Kentucky Frontier will incur the \$800,000 payment to GOLD

16. Each utility will cease to be a separate corporate entity under Kentucky Frontier ownership. The proposed debt structure of Kentucky Frontier is attributable to the original utility systems as follows:

a. **Belfry Gas.** Belfry has no external debt, except for amounts payable to owner JW Kinzer. This acquisition will leave this entity without debt. The acquisition cost of \$500,000 is for the Belfry assets. Frontier is also negotiating to take over certain farm tap customers controlled by Kinzer but not currently included in the Belfry system.

b. **Floyd County Gas.** This system has substantial debt to GOLD and to Floyd County. Under the terms of the public bid, the acquisition price of \$1,075,000 will be paid to Floyd County, which will discharge all debts. Frontier has placed \$700,000 in escrow for the benefit of Floyd County as payment for the assets. Frontier will receive credit for the remaining balance by retiring the current GOLD debt.

c. **Elam Utility.** This system has substantial debt to GOLD of about \$900,000. Frontier will retire the GOLD debt and pay the owner for any remaining equity. There is also an imbalance of 46,000 DTH of gas owed in-kind to Columbia Gas Transmission Corporation for unpaid gas

deliveries. Frontier will not assume this liability, but will attempt to negotiate a fair settlement between the owner, Columbia and Elam ratepayers..

d. **Mike Little.** Company has a small GOLD loan, and 2 small commercial bank loans. The GOLD balance is currently approximately \$140,000. Frontier will retire the existing Mike Little loan with GOLD and pay an additional \$210,000 to the current owner.

17. Floyd County Gas has redeemed a bond payable to the county. GOLD has a bond held in the name of Floyd County Gas that will be cancelled as part of the Asset Purchase Agreement. Kentucky Frontier does not anticipate issuing bonds.

18. Belfry Gas holds a note to owner J.W. Kinzer. Elam Utility, Floyd County Gas and Mike Little Gas each hold one or more commercial bank notes. These debts will be assumed or paid by the current owners and not by Kentucky Frontier. No liability for any debts, notes or other obligations is being assumed by Frontier.

19. The remaining Kentucky Frontier debt will be secured through a commercial bank loan with Community Trust Bank. The terms are expected to be \$1,700,000 at prime plus .50% APR amortized over 10 years. See exhibit 8.

20. The proceeds of equity and debt financing will be used to finance the acquisition and initial operating costs of these utilities. The total acquisition cost is expected to be \$2.7 million. The cost of regulatory approvals and initial

system upgrades is expected to increase the total initial project cost to \$2.9 million.

21. The proceeds of the financing are not being used to refund any outstanding obligations, except to the extent previously described.

22. Kentucky Frontier's business plan is generally reflected in the proposed pro forma financial statements, description of proposed operations and other information provided in exhibit 4.

23. A description of the original cost of the property to be acquired by Frontier can be found in the PSC Annual Reports of Belfry Gas, Inc., Elam Utility Company, Inc., Floyd County Gas and Mike Little Company, which are incorporated by reference. The cost to Kentucky Frontier of each property is described above.

24. Kentucky Frontier is an LLC and has no stock. Upon funding of equity and debt, and after closing on the purchase of the utilities named herein, Frontier partners will hold the following ownership:

- a. Industrial Gas (10%)
- b. Larry Rich (20%)
- c. Steven Shute (40%)
- d. Robert Oxford (30%)

25. No stock is to be issued in conjunction with this financing.

26. The other debt to be issued, amount, interest rate and security are described in exhibit 8.

27. The proceeds of the financing are to be used to finance the acquisition of debt of the utilities named above.

28. The proceeds of the financing are not being used to refund any outstanding obligations.

29. There is no preferred stock issued.

30. The current GOLD mortgages, including the name of the mortgagee, secured debt, and other provisions of the utilities to be acquired are discussed in paragraphs 14-18.

31. Floyd County and GOLD each hold bonds Series A and Series B related to the loan of 1991 by GOLD to Floyd County. Those bonds have been or will be retired at the time of closing of the financing with each entity. There are no bonds to be issued by Kentucky Frontier.

32. Notes are described in paragraphs 14-18.

33. Other debts are discussed in paragraphs 14-18.

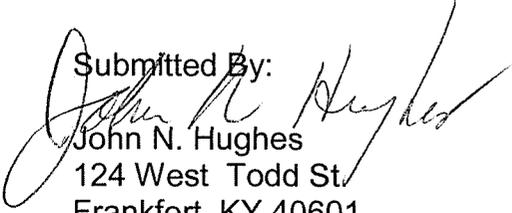
34. No dividends have been paid by Kentucky Frontier in the last five years.

35. A balance sheet and income statement is included in exhibit 4.

Based on this information, the Applicant believes the financing is in the public interest, for a lawful purpose, is necessary for the proper performance of the utility to serve its customers and is reasonably necessary as required by KRS 278.300.

For these reasons, Kentucky Frontier requests that the Commission issue an order approving the financing and any other approvals necessary to complete

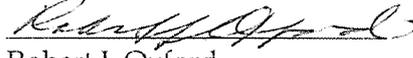
the transactions related to the financing. Kentucky Frontier further requests that the application be given expedited review and approval prior to November 28, 2008. This will allow the closing of financing in a timely manner and will give Frontier the opportunity to begin operations prior to the winter heating season of 2008-2009.

Submitted By:

John N. Hughes
124 West Todd St.
Frankfort, KY 40601

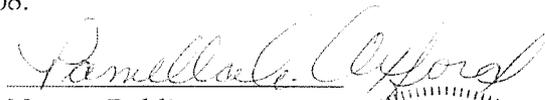
Attorney for
Kentucky Frontier Gas, LLC

AFFIDAVIT

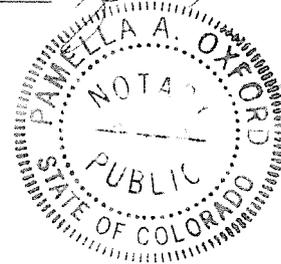
Affiant, Robert J. Oxford, after being first sworn, deposes and says he is the President of Kentucky Frontier Gas, LLC, that he is authorized on behalf of the company to file this petition, that the petition and the statements are true and correct to the best of his knowledge and belief except as to those matters that are based on information provided to him and as to those he believes to be true and correct.


Robert J. Oxford

This instrument was produced, signed and sworn by Robert Oxford to be his act and deed the 19th day of September, 2008.


Notary Public

My Commission expires: _____ My commission expires 9/22/08



Commonwealth of Kentucky
Trey Grayson, Secretary of State

9/17/2008

Division of Corporations
Business Filings

P. O. Box 718
Frankfort, KY 40602
(502) 564-2848
<http://www.sos.ky.gov>

Certificate of Authorization

Authentication Number: 69923

Visit <http://apps.sos.ky.gov/business/obdb/certvalidate.aspx> to authenticate this certificate.

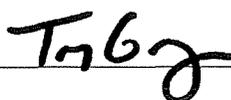
I, Trey Grayson, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,
KENTUCKY FRONTIER GAS, LLC

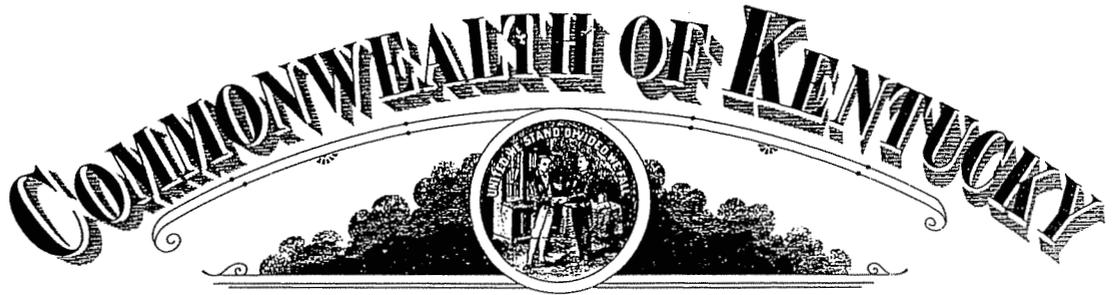
, a limited liability company organized under the laws of the state of Colorado, is authorized to transact business in the Commonwealth of Kentucky and received the authority to transact business in Kentucky on August 25, 2005.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that an application for certificate of withdrawal has not been filed; and that the most recent annual report required by KRS 275.190 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 17th day of September, 2008.




Trey Grayson
Secretary of State
Commonwealth of Kentucky
69923/0620382



**Trey Grayson
SECRETARY OF STATE**

CERTIFICATE

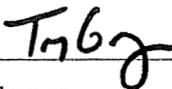
I, **Trey Grayson**, Secretary of State for the Commonwealth of Kentucky, do hereby certify that the foregoing writing has been carefully compared by me with the original thereof, now in my official custody as Secretary of State and remaining on file in my office, and found to be a true and correct copy of

APPLICATION FOR CERTIFICATE OF AUTHORITY OF

KENTUCKY FRONTIER GAS, LLC FILED AUGUST 25, 2005.



IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at Frankfort, Kentucky this 26th day of August, 2005.



**Trey Grayson
Secretary of State
Commonwealth of Kentucky**

(Printed By: BWeber - Certificate ID: 19205)

COMMONWEALTH OF KENTUCKY
TREY GRAYSON
SECRETARY OF STATE



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Trey Grayson
Secretary of State
Received and Filed
08/25/2005 12:38:13 PM
Fee Receipt: \$90.00
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APPLICATION FOR CERTIFICATE OF AUTHORITY

Pursuant to the provisions of KRS Chapter 275, the undersigned hereby applies for authority to transact business in Kentucky on behalf of the limited liability company named below and for that purpose submits the following statements:

- The company is a limited liability company (LLC).
 a professional limited liability company (PLLC).
- The name of the limited liability company is
Kentucky Frontier Gas, LLC
- The name of the limited liability company to be used in Kentucky is
Kentucky Frontier Gas, LLC
(if "real name" is unavailable for use)
- Colorado is the state or country of organization.
- August 4, 2005 is the date of organization and, if the limited liability company has a specific date of dissolution, the latest date upon which the limited liability company is to dissolve is August 3, 2035
- The street address of the office required to be maintained in the state of formation or, if not so required, the principal office address is
3760 Vance St, Suite 200 Wheat Ridge CO 80033-6275
Street City State Zip Code
- The names and usual business addresses of the current managers, if any, are as follows:

<u>Robert J. Oxford</u>	<u>3097 Owens Ct, Lakewood, CO 80215</u>
<small>Name</small>	<small>Address</small>
<u>Larry Rich</u>	<u>104 Sand Castle Dr, Emerald Isle, NC 28594</u>
<small>Name</small>	<small>Address</small>

(Attach a continuation, if necessary)
- The street address of the registered office in Kentucky is
Kentucky Home Life Building Louisville KY 40202
Street City State Zip Code
and the name of the registered agent at that office is
CT Corporation System
- This application will be effective upon filing, unless a delayed effective date and/or time is specified:
N/A
(Delayed effective date and/or time)

I certify that, as of the date of filing this application, the above-named limited liability company validly exists as a limited liability company under the laws of the jurisdiction of its formation.

Robert J. Oxford
Signature
Robert J. Oxford, Member
Type or Print Name & Title

Date: August 22, 2005

I, CT Corporation System, consent to serve as the registered agent on behalf of the limited liability company.
Type or print name of registered agent

James Martin
Signature of Registered Agent
James Martin
Type or Print Name & Title
Assistant Secretary

ARTICLES OF ORGANIZATION
For
Kentucky Frontier Gas LLC, a Colorado LIMITED LIABILITY COMPANY

The undersigned, natural persons of at least 18 years of age, acting as organizers, hereby form a limited liability company by virtue of the Colorado Limited Liability Company Act and adopt the following Articles of Organization for such limited liability company.

ARTICLE I
Name

The name of the limited liability company is Kentucky Frontier Gas, L.L.C.

ARTICLE II
Principal Place of Business

The principal place of business of the limited liability company is the county of Jefferson, State of Colorado. The address of the principal place of business is: 3760 Vance Street, Suite 200, Wheat Ridge, Colorado 80033.

ARTICLE III
Duration

The limited liability company shall dissolve and terminate thirty (30) years from the date of filing of these Articles of Organization with the Secretary of State.

ARTICLE IV
Registered Agent

The registered agent of this limited liability company in this state is Industrial Gas Services, Inc., a Colorado corporation. The business address of the registered agent is 3760 Vance Street, Suite 200, Wheat Ridge, Colorado 80033.

ARTICLE V
Initial Managers

The management of the LLC is vested in the managers of the LLC. The name and business addresses of the initial managers who shall serve until the first annual meeting of the members or until their successors are elected and qualified are: Robert J. Oxford, 3097 Owens Court, Lakewood, CO 80215, and Steven Shute, ^{P.O. Box} 993 Brush Creek, Glenwood Springs, CO. ~~81601~~, and Larry Rich, 104 Sand Castle Drive, Emerald Isle, NC 28594.

ARTICLE VI

Purposes

The limited liability company is organized for the following purposes:

1. To conduct and carry on any lawful business.

ARTICLE VII

Manager Liability and Indemnity

To the fullest extent permitted by Colorado law:

(a) A Manager of the limited liability company shall not be personally liable to the limited liability company or to the Members for monetary damages for breach of fiduciary duty, except with respect to (1) any breach of the duty of loyalty; (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; or (3) any transactions from which the Manager derived an improper personal benefit;

(b) A Manager shall not be liable to the limited liability company or to any Member for any action taken or omitted to be taken by such Manager, provided that such Manager acted in good faith and such action or omission does not involve the gross negligence, willful misconduct or fraud of such Manager; and

(c) The limited liability company shall hold harmless and defend each such Manager against expenses (including any legal fees and expenses), judgments, fines, and amounts paid in settlement, actually and reasonably incurred by such Manager, in connection with any threatened, pending or completed claim, demand, action, suit or proceeding to which such Manager was or is a party or is threatened to make a party, by reason of (1) such Manager's status as Manager or any person who is or was serving at the request of the Manager, or (2) any action taken or omitted to be taken by such Manager in any capacity referred to in clause (1) of this subsection (c), relating to the property, business, affairs or management of the limited liability company (provided that the Manager acted in good faith and the act or omission that is the basis of such claim, demand, action, suit or proceeding does not involve the gross negligence, willful misconduct or fraud of such Manager).

IN WITNESS WHEREOF, I have signed these Articles of Organization this 8th day of August, 2005, and acknowledge the same to be my true act and deed.

ORGANIZER

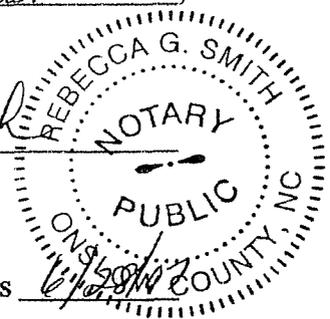
[Signature]
Larry Rich

STATE OF NORTH CAROLINA)
) ss.
COUNTY OF CARTERET)

I, *Rebecca Smith* a Notary Public in and for the County and State as aforesaid, hereby certify that Larry Rich whose name is subscribed to the annexed and foregoing Articles of Organization appeared before me this day in person and acknowledged that he signed, sealed, and delivered the said instrument of writing as his free and voluntary act, for the uses and purposes therein set forth.

SUBSCRIBED AND SWORN TO before me this *9th* day of *August*, 2005.

Rebecca Smith
NOTARY PUBLIC



My Commission expires *6/14/2007*

Information On File

ID Number: 20051297798
Name: Kentucky Frontier Gas, LLC.

Registered Agent: Industrial Gas Services, Inc.
Registered Agent Street Address: 3760 Vance Street, Suite 200, Wheat Ridge, CO
80033, United States
Registered Agent Mailing Address:

Principal Office Street Address: 3760 Vance St., Suite 200, Wheat Ridge, CO 80033,
United States
Principal Office Mailing Address:

Status: Good Standing
Form: Limited Liability Company
Jurisdiction: Colorado
Formation Date: 08/04/2005
Term of Duration: Perpetual
Annual Report Month: August

You may:

- View History and Documents
 - Obtain Certificate of Good Standing
 - File a Document
 - Set Up Email Notification
-

SERVICES AGREEMENT

THIS AGREEMENT made and entered into the day and year set forth below, by and between EAST KENTUCKY UTILITIES, INC., hereinafter referred to as the "County's Lessee" and KENTUCKY FRONTIER GAS, LLC, hereinafter referred to as "Contractor".

WITNESSETH:

In consideration of the mutual covenants and obligations herein expressed, it is agreed by and between the parties hereto as follows:

1. Scope of Services and Standards of Service. The Contractor agrees to operate the Floyd County Gas System, and to provide services in accordance with the Scope of Services attached hereto as Exhibit "A" and incorporated herein by this reference. The Scope of Services, compensation, and other conditions of this agreement may be changed at any time upon written agreement by both parties.

The Contractor agrees to adhere to the Standards of Service attached hereto as Exhibit "B" and incorporated herein by this reference.

2. Term. This agreement shall be effective for all purposes as of August 15, 2005, at 12:01 a.m. and shall extend for an Initial Contract Term of Six (6) months from first effective date, subject to Section 4 of this agreement. The agreement may be extended with a written memorandum agreement signed by both parties. If any party intends to terminate and not renew the contract at the end of the Initial or Extended

periods, such party shall notify the other in writing at least two (2) months prior to the termination of operations. If no notification of termination is given but a new operating agreement is not in effect, to ensure continuity of service past the end of the Initial or Extended Contract periods, Contractor shall continue to operate the system for up to three (3) months under the last existing contractual terms.

3. Termination for Cause. Notwithstanding the time periods contained herein, either party may terminate this Agreement at any time for cause by providing 21 days prior written notice of termination to the other party. "For cause" shall include, but is not limited to incompetence, breach or neglect of duty, gaps in coverage, failure to perform the Scope of Services outlined in Exhibit A or adhere to the Standards of Service outlined in Exhibit B; non-payment or under-payment of compensation as defined in Section 9 or extraordinary capital items as defined in Section 7 of this agreement; or willful and uncorrected violation of any rule or regulation pertaining to natural gas utility operations of the utility system.

The County's Lessee reserves the right to terminate this Agreement with sixty (60) days written notice, upon the unavailability of funds due to matters outside the County's Lessee's control.

4. Termination on Sale of County Natural Gas System. The County's Lessee has approved the sale of the gas utility to Contractor and reserves the right to terminate this Agreement upon closing of such sale and subject to Section 17 of this agreement.

5. Notices. All notices provided under this Agreement shall be effective when mailed, postage prepaid and sent to the following addresses:

If Contractor:

Steve Oxford
Kentucky Frontier Gas
3760 Vance St, #200
Wheat Ridge, CO 80033

If County's Lessee:

Floyd County Gas System
c/o Paul H. Thompson
149 South Central Avenue, Suite 9
Prestonsburg, KY 41653

6. Payment Upon Termination. In the event of any early termination by either party, the Contractor shall be paid for services rendered prior to the date of termination, subject to the satisfactory performance of the Contractor's obligations under this Agreement and the provisions of paragraphs 3 and 15 of this Agreement. Such payment shall be the Contractor's sole right and remedy for such termination.

7. Extraordinary Repairs. Contractor is not expected to perform extraordinary items outside the scope of services. Such extraordinary items are reflected in Exhibit A. As long as practical before such extraordinary items are required, Contractor shall consult with the County's Lessee regarding the scope, cost, or necessity of such items. Contractor can provide personnel and resources as available to define, plan, bid if necessary, coordinate, and supervise performance of such items as Agent for the County's Lessee. The County's Lessee shall be responsible for third-party contractor costs of such items.

If the County's Lessee does not approve any item of extraordinary repair that Contractor deems required for safe operation of any part of the system, the following process shall be followed to resolve the matter. (1) The County's Lessee shall, in its

sole discretion, hire its own consultants to review the proposal; (2) The parties shall try to resolve the matter; (3) If the matter cannot be resolved, then the situation shall be referred to the Kentucky Public Service Commission; (4) The County's Lessee shall obtain a written opinion from the Commission as to the course of action that should be followed in the matter; and (5) The parties shall follow the advice of the Commission in resolving the matter.

8. Design, Project, Indemnity and Insurance Responsibility. The Contractor shall be responsible for the professional quality, technical accuracy, timely completion and the coordination of all services rendered by the Contractor, including but not limited to designs, plans, reports, repair quality, construction quality, specifications, and drawings and shall, without additional compensation, promptly remedy and correct any errors, omissions, or other deficiencies. The Contractor shall indemnify, save and hold harmless the County's Lessee, its officers and employees in accordance with Kentucky law, from all damages, claims, liability, and court awards whatsoever claimed by third parties against the County's Lessee, including the County's Lessee 's costs and reasonable attorneys fees, arising directly or indirectly out of the Contractor's performance of any of the services furnished under this Agreement. The Contractor shall maintain commercial general liability insurance in the amount of \$1,000,000 per occurrence with a \$1,000,000 umbrella policy, and hired / non-owned automobile liability insurance in the amount of \$1,000,000 per occurrence, both of which shall name the County's Lessee as an additional insured party. Contractor shall at all times

also maintain workers compensation insurance on its employees. Certificates of insurance for both liability and workers compensation coverage shall be submitted to the County's Lessee within 30 days of the signing of this contract and within 30 days of the anniversary date for every year that the contract continues in force.

9. Compensation. In consideration of the services to be performed pursuant to this Agreement, the County's Lessee agrees to pay Contractor a fee based on actual costs with a fixed percentage margin, as set out in Exhibit "C" and incorporated herein by this reference. Fee shall be paid monthly by the 20th day of each month. Contractor shall submit verifiable statements to document costs paid to third parties.

If the parties decides to extend this Agreement beyond the end of the Initial Contract Term, the parties agree to negotiate subsequent modified compensation amounts and document the understanding reached by written memorandum agreement for the prospective extension period.

Upon full payment of fees, all designs, plans, reports, specifications, drawings, and other services rendered by the Contractor shall become the sole property of the County's Lessee. Expenses that are the responsibility of the County's Lessee under this agreement are as detailed in Exhibit A.

10. Contract Representatives. Each party will designate, prior to commencement of work, its local contract representative who shall make, within the scope of his or her authority, all necessary and proper decisions with reference to this

contract. All requests for contract interpretations, change orders, and other clarification or instruction shall be directed to the respective Contract Representatives.

11. Independent Contractor. The services to be performed by Contractor are those of an independent contractor and not of an employee of the County's Lessee. The County's Lessee shall not be responsible for withholding any portion of Contractor's compensation hereunder for the payment of FICA, Workers' Compensation, other taxes or benefits or for any other purpose.

12. Personal Services. It is understood that the County's Lessee enters into this Agreement based on the special abilities of the Contractor and that this Agreement shall be considered as an agreement for personal services. Accordingly, the Contractor shall neither subcontract, assign any responsibilities nor delegate any duties arising under this Agreement without the prior written consent of the County's Lessee.

13. Acceptance Not Waiver. The County's Lessee 's approval of repairs, construction, drawings, designs, plans, specifications, reports, and incidental work or materials furnished hereunder shall not in any way relieve the Contractor of responsibility for the quality or technical accuracy of the work. The County's Lessee 's approval or acceptance of, or payment for, any of the services shall not be construed to operate as a waiver of any rights or benefits provided to the County's Lessee under this Agreement.

14. Default. Each and every term and condition hereof shall be deemed to be a material element of this Agreement. In the event either party should fail or refuse to perform according to the terms of this agreement, such party may be declared in default.

15. Remedies. In the event a party has been declared in default and notified of such in writing, such defaulting party shall be allowed a period of twenty-one (21) days from the date of notice within which to cure said default. In the event the default remains uncorrected, the party declaring default may elect to (a) terminate the Agreement and seek damages; (b) treat the Agreement as continuing and require specific performance; or (c) avail itself of any other remedy at law or equity. If one party commences legal or equitable actions against the alleged defaulting party, and a party is found to have been in default, then the defaulting party shall be liable to the non-defaulting party for the non-defaulting party's reasonable attorney fees and costs incurred because of the default.

The County's Lessee may take remedial action if it should find that the Contractor has substantially failed to satisfy or perform the duties and obligations in this Agreement. Substantial failure shall include, but not be limited to, incorrect or improper activities or inaction. Remedial actions may include: (1) suspension of the Contractor's performance pending necessary corrective actions; (2) proportionate reduction of payment to Contractor until the unperformed services or corrections in performance are satisfactorily completed; (3) request removal from work of any

employees or agents of the Contractor the County's Lessee reasonably deems as being incompetent, careless, unsuitable, or otherwise unacceptable, or whose continued employment is contrary to the public interest and not in the best interest of the County's Lessee ; and (4) deny payment for those services or obligations not performed. These remedies are cumulative and the County's Lessee, in its sole discretion, may exercise any or all of them individually or simultaneously. Contractor may be afforded the opportunity to correct or cure its performance; however, this in no way is intended to limit the County's Lessee 's right to exercise the remedial actions outlined herein.

16. Binding Effect. This writing, together with the exhibits hereto, constitutes the entire agreement between the parties and shall be binding upon said parties, their officers, employees, agents and assigns and shall inure to the benefit of the respective survivors, heirs, personal representatives, successors and assigns of said parties.

17. Event of Sale to Third Party. In the event the pending sale of the gas utility system to Contractor is not consummated, then to the extent practical, the purchasing entity shall give preference to hiring the Contractor's full-time operating personnel to continue in their respective roles.

18. Law / Severability. The laws of the State of Kentucky shall govern the construction, interpretation, execution and enforcement of this Agreement. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of

competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Agreement.

19. Records. Contractor shall maintain all records, documents, communications, and other written materials pertaining to this contract for at least 3 years after termination for final payment. The County's Lessee and any authorized agent for a governmental agency shall be allowed to audit or inspect Contractor's records and to monitor all activities of the Contractor during the term of this Agreement and for 3 years after to assure compliance with the Agreement and evaluate the Contractor's performance. Contractor agrees to maintain confidentiality of all utility customer records in accordance with relevant statutes or regulations.

20. Adherence to Laws and Regulations. Contractor agrees to adhere to all applicable federal, state, and local laws and regulations including labor laws and laws regulating the gas utility industry during the term of this Agreement. Contractor is required to obtain, and maintain in effect throughout the duration of the Agreement all licenses, permits and authorizations necessary to do the work, with proof thereof being provided to the County's Lessee upon request.

EXHIBIT "A"

SCOPE OF SERVICES

The following are the services to be furnished by the Contractor to operate the Floyd County Gas System, which currently operated and managed as East Kentucky Utilities, Inc. (EKU), pursuant to a Lease Agreement. Although the list is intended to be all-inclusive, there may be other services, in the ordinary course of business that the Contractor will be asked to perform.

GAS UTILITY FIELD SERVICES

- Operate and maintain the Floyd County gas system and all its components.
- Receive, log and respond to all gas utility-related calls from customers.
- Read meters on a monthly basis. No active meter shall be estimated for more than two (2) consecutive meter cycles. Estimated usage is allowable when such meter reading creates an unsafe condition such as access due to weather conditions.
- Render bills to customers on a monthly basis.
- Answer customer inquiries about billing and accounts.
- Administer Budget Billing in accordance with the utility's rules and regulations.
- Collect amounts due from monthly billings and deposit to County's Lessee's bank account.
- Follow up on delinquent accounts and render delinquency notices if needed.
- Provide all monthly general ledger transactions for entry into the County's Lessee accounting system.
- Provide monthly reports to County's Lessee including usage, amounts billed and collected.
- Set, change and remove meters based on service orders logged by the utility.
- Exchange meters for testing according to utility's testing schedule.
- Conduct leak surveys in accordance with utility's schedule.
- Conduct leak investigations for all leaks called in by customers.
- Repair underground leaks.
- Repair above-ground leaks.
- Perform annual and bimonthly corrosion control checks.
- Trouble shoot pressure problem areas and make recommendations for corrective actions.
- Perform annual inspections on emergency valves.

- Perform annual regulator station inspections.
- Perform line locates based on utility work orders including orders through One Call.
- Conduct pressure checks in winter months (October through April) to ensure adequate service.
- Operate the transmission pipeline, distribution system, and all related facilities.
- Perform periodic DOT required pipeline patrols.
- Perform checks of gas delivery stations and operate the utility odorizer.
- Install or remove service lines.
- Install or remove underground valves for the purpose of control, maintenance or leak repair.
- Install or remove extensions or laterals off the transmission or distribution pipeline.
- Assist the County's Lessee in ordering parts and supplies to be furnished by the County's Lessee as specified herein.
- Work in cooperation with County's Lessee's gas supplier to ensure adequate gas purchase and supply.
- Provide engineering & support for minor projects such as service line and repair work.
- Analyze L & U gas, search for solutions for any discrepancies.
- Prepare and submit all monthly operating reports to County's Lessee's supplier.
- Prepare and submit all operations-related reports required by regulatory agencies such as Kentucky PSC, DOT, etc.
- Ensure that gas system is operated in accordance with the Natural Gas Rules and Regulations filed for this utility.
- All above services shall be conducted in accordance with industry standards and DOT 49 CFR Part 192 requirements.
- Contractor will develop a comprehensive written Plan for adding new customers to the gas utility system. The Plan is to be submitted to the County's Lessee by the end of March of each year. Consideration in the plan should be given to how to add the most profitable customers for the least cost. Costs of construction should be estimated in the plan.
- Contractor shall submit a written monthly report on the gas operations to the County's Lessee that includes discussion of significant issues or problems as well as what "went right" during the month.

The County's Lessee agrees to furnish the following relating to the performance of the above services:

- Materials, parts, and supplies required to perform any routine repairs or maintenance.
- Construction materials for construction projects.
- Specialized equipment for repair, maintenance and construction, including utility trucks, PE fusion equipment and tools, gas detectors, line locators, trencher, backhoe and dump truck and accessories. Such equipment is the property of the County.
- Reasonable office space for field employees including utility record filing cabinets, access to phone and fax lines, a photocopier, and personal computer.
- Storage area at a county property.

EXTRAORDINARY ITEMS OUTSIDE THE SCOPE OF SERVICES

The following are outside the scope of services required to be completed by the Contractor:

- Major repairs caused by fire, flood, explosion, land movement, vehicular damage and similar occurrences which have caused or may cause a safety related condition
- Facility relocations required by jurisdictional agencies
- Major extensions or improvements which require more than 3 worker-days in more than 4 consecutive weeks
- Major facility replacements which require more than 3 worker-days in more than 4 consecutive weeks
- Backhoe operation more than 8 hours per project, or in environmentally sensitive areas or around transmission pipeline or other critical facilities
- Certified welding on steel pipe containing natural gas
- Meter testing and refurbishing
- Environmental disposal and remediation activities

EXHIBIT "B"

STANDARDS OF SERVICE

- The Contractor shall maintain at least 4 Full-Time Equivalent (FTE) employee positions at all times. One Full-Time Equivalent (FTE) employee position is defined as one or more Contractor-supplied personnel working for the benefit of the County's Lessee, on-duty for normal forty (40) hour work weeks for the entire contract month.
- An Employee may be absent for normal leaves including time off beyond the normal work week, vacation, and sick leave as long as adequate system coverage is provided.
- Part-time employees may be used to fulfill the FTE requirement.
- All operating employees shall be covered by DOT-proscribed programs for drug and alcohol testing.
- All employees shall be covered as applicable by DOT-proscribed plans for Operator Qualification for covered tasks and other programs.
- The Contractor's employees shall be expected to perform most services during normal working hours of the County's Lessee's customary work week (i.e., M-F excluding observed holidays).
- At least one employee shall remain on-call and be present within the County's Lessee's service area for after-hours emergency services (i.e., coverage is expected 24/7).
- At least one back up employee shall be provided for instances of vacation, illness, or training of regular employees. Back up employees are expected to provide regular services and after-hours emergency services for the County's Lessee as needed.
- Except when unable due to Force Majeure, Contractor employees shall respond to emergency calls within 45 minutes.
- In addition to regular and backup employees, Contractor may designate and train Emergency Responder personnel to provide emergency response more quickly or efficiently.

EXHIBIT "C"
BASIS OF FEES FOR OPERATION

As detailed in Section 9 of the Services Agreement, the County's Lessee shall pay a monthly fee for operating the Floyd County Gas System. Such fee shall be paid by the 20th of each month of operations.

Fee shall be "cost-plus". County's Lessee shall pay to Contractor a monthly fee equal to the actual costs of operations attributable to the Services Agreement, plus an Operating Margin of 10%.

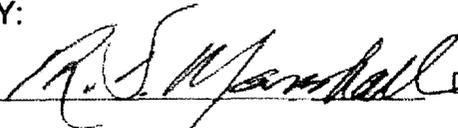
Contractor's estimated monthly operating costs are outlined herein. The first month's fee shall be calculated on this estimated cost plus the Operating Margin.

Thereafter, Contractor shall invoice County's Lessee for actual costs as known, plus the Operating Margin.

Item	\$ / Month	
Manager	3,000	
Med	200	
Veh	500	
Ops 1-2	5,000	
Med	400	
Veh	500	
Office labor	1,500	
Med	400	
FICA	727	
WC & KUTA	333	
Liab Insurance	500	
Office & Ops	1,500	
Utils	150	
Phone & Net	150	
Mobile phones	250	
Matls, Tools, & Suppl	500	
Ans service		
KY One-Call	100	
Repairs & Mtce	1,000	
Travel	1,000	
Billing & Acctg	1,000	
Rent	1,000	
 Total Est Expenses		\$19,310
Cost-Plus Adder (1 st Month)		\$1,690
Total Est Cost		\$21,000

FLOYD COUNTY, KENTUCKY

BY:

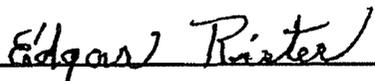
 Date: 7/1/, 2008
Chief Magistrate of Floyd County Fiscal Court

ATTEST:

 Date: 7/2/, 2008
Clerk of Floyd County Fiscal Court

EAST KENTUCKY UTILITIES

BY:

 Date: 7-2-, 2008
EDGAR RISTER, PRESIDENT, EAST KY. UTILITIES, INC.

KENTUCKY FRONTIER GAS, LLC

BY:

 Date: 7/3, 2008
Robert J. Oxford, Manager

MIKE LITTLE GAS SYSTEM SERVICES AGREEMENT

THIS AGREEMENT made and entered into the day and year set forth below, by and between MIKE LITTLE GAS, hereinafter referred to as the "MLG", and KENTUCKY FRONTIER GAS, LLC., hereinafter referred to as "Contractor".

WITNESSETH:

In consideration of the mutual covenants and obligations herein expressed, it is agreed by and between the parties hereto as follows:

1. Scope of Services and Standards of Service. The Contractor agrees to operate the MLG, and to provide services in accordance with the Scope of Services attached hereto as Exhibit "A" and incorporated herein by this reference. The Scope of Services, compensation, and other conditions of this agreement may be changed at any time upon written agreement by both parties.

The Contractor agrees to adhere to the Standards of Service attached hereto as Exhibit "B" and incorporated herein by this reference.

2. Term. This agreement shall be effective for all purposes as of July 1, 2008, and shall extend for an Initial Contract Term of six (6) months from first effective date, subject to Section 4 of this agreement. The agreement may be extended with a written memorandum agreement signed by both parties. If any party intends to terminate and not renew the contract at the end of the Initial or Extended periods, such party shall notify the other in writing at least thirty (30) days prior to the termination of operations. If no notification of termination is given but a new operating agreement is not in effect, to ensure continuity of service past the end of the Initial or Extended

Contract periods, Contractor shall continue to operate the system for up to six (6) months under the last existing contractual terms.

3. Termination for Cause. Notwithstanding the time periods contained herein, either party may terminate this Agreement at any time for cause by providing 21 days prior written notice of termination to the other party. "For cause" shall include, but is not limited to incompetence, breach or neglect of duty, gaps in coverage, failure to perform the Scope of Services outlined in Exhibit A or adhere to the Standards of Service outlined in Exhibit B; non-payment or under-payment of compensation as defined in Section 9 or extraordinary capital items as defined in Section 7 of this agreement; or willful and uncorrected violation of any rule or regulation pertaining to natural gas utility operations of the utility system.

MLG reserves the right to terminate this Agreement with sixty (60) days written notice, upon the unavailability of funds due to matters outside MLG's control.

4. Termination on Sale of MLG. MLG has approved the sale of the gas utility to Contractor and reserves the right to terminate this Agreement upon closing of such sale and subject to Section 17 of this agreement.

5. Notices. All notices provided under this Agreement shall be effective when mailed, postage prepaid and sent to the following addresses:

If Contractor:

Steve Oxford
Kentucky Frontier Gas
4891 Independence St, #200
Wheat Ridge, CO 80033

If MLG:

Ms.Miki Thompson
Mike Little Gas
2 N Sunset Blvd
Williamson, WV 25661

6. Payment Upon Termination. In the event of any early termination by either party, the Contractor shall be paid for services rendered prior to the date of termination, subject to the satisfactory performance of the Contractor's obligations under this Agreement and the provisions of paragraphs 3 and 15 of this Agreement. Such payment shall be the Contractor's sole right and remedy for such termination.

7. Extraordinary Repairs. Contractor is not expected to perform extraordinary items outside the scope of services. Such extraordinary items are reflected in Exhibit A. As long as practical before such extraordinary items are required, Contractor shall consult with MLG regarding the scope, cost, or necessity of such items. Contractor can provide personnel and resources as available to define, plan, bid if necessary, coordinate, and supervise performance of such items as Agent for MLG. MLG shall be responsible for third-party contractor costs of such items.

If MLG does not approve any item of extraordinary repair that Contractor deems required for safe operation of any part of the system, the following process shall be followed to resolve the matter. (1) MLG shall, in its sole discretion, hire its own consultants to review the proposal; (2) The parties shall try to resolve the matter; (3) If the matter cannot be resolved, then the situation shall be referred to the Kentucky

Public Service Commission; (4) MLG shall obtain a written opinion from the Commission as to the course of action that should be followed in the matter; and (5) The parties shall follow the advice of the Commission in resolving the matter.

8. Design, Project, Indemnity and Insurance Responsibility. The Contractor shall be responsible for the professional quality, technical accuracy, timely completion and the coordination of all services rendered by the Contractor, including but not limited to designs, plans, reports, repair quality, construction quality, specifications, and drawings and shall, without additional compensation, promptly remedy and correct any errors, omissions, or other deficiencies.

CERTIFICATES OF INSURANCE must be provided by MLG to Contractor as follows:

General Liability: Including contractual with limits of not less than:

\$1,000,000 Per Occurrence
\$2,000,000 General Aggregate
\$1,000,000 Products/Completed
Operations Aggregate

Automobile Liability:

With limits of not less than: \$1,000,000 Combined Single Limit

Worker's Compensation: "Statutory Limits" with Employer's Liability
Limits of not less than:

\$1,000,000 Each Accident
\$1,000,000 Disease Policy Limit
\$1,000,000 Disease Each
Employee

APPLICABLE TO GENERAL LIABILITY AND AUTOMOBILE LIABILITY ONLY:
Contractor shall be named as an additional insured and policy shall waive rights of subrogation against Contractor.

APPLICABLE TO WORKERS COMPENSATION ONLY: Unless specifically prohibited by State statute, Policy shall waive rights of subrogation against MLG.

INDEMNITY: Contractor agrees to protect, defend, indemnify and hold harmless MLG, its officers, directors, employees or their invitees, and any customer for whom MLG is performing services, from and against all claims, demands, and causes of action of every kind and character without limit and without regard to the cause or causes thereof or the negligence or fault (active or passive) of any party or parties including the joint or concurrent negligence of MLG, any theory of strict liability and defect of premises, arising in connection herewith in favor of Contractor's employees, Contractor's subcontractors or their employees, or Contractor's invitees on account of bodily injury, death or damage to property.

MLG agrees to protect, defend, indemnify and hold harmless Contractor, its officers, directors, employees or their invitees, from and against all claims, demands, and causes of action of every kind and character without limit and without regard to the cause thereof or the negligence or fault (active or passive) of any party or parties including the joint or concurrent negligence of Contractor, any theory of strict liability and defect of premises, arising in connection herewith in favor of MLG's employees, MLG's subcontractors (other than Contractor herein) or their employees, or MLG's invitees on account of bodily injury, death or damage to property.

Both MLG and Contractor will carry at least the minimum insurance limits described above in support of the indemnity agreements contained herein.

Contractor shall at all times also maintain workers compensation insurance on its employees. Certificates of insurance for both liability and workers compensation coverage shall be submitted to MLG within 30 days of the signing of this contract and within 30 days of the anniversary date for every year that the contract continues in force.

9. Compensation. In consideration of the services to be performed pursuant to this Agreement, MLG agrees to pay Contractor a fee based on actual costs with a fixed percentage margin, as set out in Exhibit "C" and incorporated herein by this reference. Fee shall be paid monthly by the 20th day of each month. Contractor shall submit verifiable statements to document costs paid to third parties.

If the parties decide to extend this Agreement beyond the end of the Initial Contract Term, the parties agree to negotiate subsequent modified compensation

amounts and document the understanding reached by written memorandum agreement for the prospective extension period.

Upon full payment of fees, all designs, plans, reports, specifications, drawings, and other services rendered by the Contractor shall become the sole property of MLG. Expenses that are the responsibility of MLG under this agreement are as detailed in Exhibit A.

10. Contract Representatives. Each party will designate, prior to commencement of work, its local contract representative who shall make, within the scope of his or her authority, all necessary and proper decisions with reference to this contract. All requests for contract interpretations, change orders, and other clarification or instruction shall be directed to the respective Contract Representatives.

11. Independent Contractor. The services to be performed by Contractor are those of an independent contractor and not of an employee of MLG. MLG shall not be responsible for withholding any portion of Contractor's compensation hereunder for the payment of FICA, Workers' Compensation, other taxes or benefits or for any other purpose.

12. Personal Services. It is understood that MLG enters into this Agreement based on the special abilities of the Contractor and that this Agreement shall be considered as an agreement for personal services. Accordingly the Contractor shall neither subcontract, assign any responsibilities nor delegate any duties arising under this Agreement without the prior written consent of MLG.

13. Acceptance Not Waiver. MLG's approval of repairs, construction, drawings, designs, plans, specifications, reports, and incidental work or materials

furnished hereunder shall not in any way relieve the Contractor of responsibility for the quality or technical accuracy of the work. MLG's approval or acceptance of, or payment for, any of the services shall not be construed to operate as a waiver of any rights or benefits provided to MLG under this Agreement.

14. Default. Each and every term and condition hereof shall be deemed to be a material element of this Agreement. In the event either party should fail or refuse to perform according to the terms of this agreement, such party may be declared in default.

15. Remedies. In the event a party has been declared in default and notified of such in writing, such defaulting party shall be allowed a period of twenty-one (21) days from the date of notice within which to cure said default. In the event the default remains uncorrected, the party declaring default may elect to (a) terminate the Agreement and seek damages; (b) treat the Agreement as continuing and require specific performance; or (c) avail itself of any other remedy at law or equity. If one party commences legal or equitable actions against the alleged defaulting party, and a party is found to have been in default, then the defaulting party shall be liable to the non-defaulting party for the non-defaulting party's reasonable attorney fees and costs incurred because of the default.

MLG may take remedial action if it should find that the Contractor has substantially failed to satisfy or perform the duties and obligations in this Agreement. Substantial failure shall include, but not be limited to, incorrect or improper activities or inaction. Remedial actions may include: (1) suspension of the Contractor's performance pending necessary corrective actions; (2) proportionate reduction of

payment to Contractor until the unperformed services or corrections in performance are satisfactorily completed; (3) request removal from work of any employees or agents of the Contractor MLG reasonably deems as being incompetent, careless, unsuitable, or otherwise unacceptable, or whose continued employment is contrary to the public interest and not in the best interest of MLG; and (4) deny payment for those services or obligations not performed. These remedies are cumulative and MLG, in its sole discretion, may exercise any or all of them individually or simultaneously. Contractor may be afforded the opportunity to correct or cure its performance; however, this in no way is intended to limit MLG's right to exercise the remedial actions outlined herein.

16. Binding Effect. This writing, together with the exhibits hereto, constitutes the entire agreement between the parties and shall be binding upon said parties, their officers, employees, agents and assigns and shall inure to the benefit of the respective survivors, heirs, personal representatives, successors and assigns of said parties.

17. Event of Sale to Third Party. In the event the pending sale of the gas utility system to Contractor is not consummated, then to the extent practical, the purchasing entity shall give preference to hiring the Contractor's full-time operating personnel to continue in their respective roles.

18. Law / Severability. The laws of the State of Kentucky shall govern the construction, interpretation, execution and enforcement of this Agreement. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Agreement.

19. Records. Contractor shall maintain all records, documents, communications, and other written materials pertaining to this contract for at least 3 years after termination for final payment. MLG and any authorized agent for a governmental agency shall be allowed to audit or inspect Contractor's records and to monitor all activities of the Contractor during the term of this Agreement and for 3 years after to assure compliance with the Agreement and evaluate the Contractor's performance. Contractor agrees to maintain confidentiality of all utility customer records in accordance with relevant statutes or regulations.

20. Adherence to Laws and Regulations. Contractor agrees to adhere to all applicable federal, state, and local laws and regulations including labor laws and laws regulating the gas utility industry during the term of this Agreement. Contractor is required to obtain, and maintain in effect throughout the duration of the Agreement all licenses, permits and authorizations necessary to do the work, with proof thereof being provided to MLG upon request.

MIKE LITTLE GAS
BY:

_____ Date: _____, 2008

Miki Thompson

KENTUCKY FRONTIER GAS, LLC
BY:

_____ Date: _____, 2008

Robert J. Oxford, Manager

EXHIBIT "A"

SCOPE OF SERVICES

The following are the services to be furnished by the Contractor to operate the Mike Little Gas. Although the list is intended to be all-inclusive, there may be other services, in the ordinary course of business that the Contractor will be asked to perform.

GAS UTILITY FIELD SERVICES

- Operate and maintain MLG and all its components.
- Receive, log and respond to all gas utility-related calls from customers.
- Read meters on a monthly basis. No active meter shall be estimated for more than two (2) consecutive meter cycles. Estimated usage is allowable when such meter reading creates an unsafe condition such as access due to weather conditions.
- Render bills to customers on a monthly basis.
- Answer customer inquiries about billing and accounts.
- Administer Budget Billing in accordance with the utility's rules and regulations.
- Collect amounts due from monthly billings and deposit to a MLG bank account.
- Follow up on delinquent accounts and render delinquency notices if needed.
- Provide all monthly general ledger transactions for entry into MLG accounting system.
- Provide monthly reports to MLG including usage, amounts billed and collected.
- Set, change and remove meters based on service orders logged by the utility.
- Exchange meters for testing according to utility's testing schedule.
- Conduct leak surveys in accordance with utility's schedule.
- Conduct leak investigations for all leaks called in by customers.
- Repair underground leaks.
- Repair above-ground leaks.
- Perform annual and bimonthly corrosion control checks.
- Trouble shoot pressure problem areas and make recommendations for corrective actions.
- Perform annual inspections on emergency valves.
- Perform annual regulator station inspections.
- Perform line locates based on utility work orders including orders through One Call.
- Conduct pressure checks in winter months (October through April) to ensure adequate service.
- Operate the transmission pipeline, distribution system, and all related facilities.
- Perform periodic DOT required pipeline patrols.
- Perform checks of gas delivery stations and operate the utility odorizer.
- Install or remove service lines.

- Install or remove underground valves for the purpose of control, maintenance or leak repair.
- Install or remove extensions or laterals off the transmission or distribution pipeline.
- Assist MLG in ordering parts and supplies to be furnished by MLG as specified herein.
- Work in cooperation with MLG's gas supplier to ensure adequate gas purchase and supply.
- Provide engineering & support for minor projects such as service line and repair work.
- Analyze L & U gas, search for solutions for any discrepancies.
- Prepare and submit all monthly operating reports to MLG's supplier.
- Prepare and submit all operations-related reports required by regulatory agencies such as Kentucky PSC, DOT, etc.
- Ensure that gas system is operated in accordance with the Natural Gas Rules and Regulations filed for this utility.
- All above services shall be conducted in accordance with industry standards and DOT 49 CFR Part 192 requirements.
- Contractor will develop a comprehensive written Plan for adding new customers to the gas utility system. The Plan is to be submitted to MLG by the end of March of each year. Consideration in the plan should be given to how to add the most profitable customers for the least cost. Costs of construction should be estimated in the plan.
- Contractor shall submit a written monthly report on the gas operations to MLG that includes discussion of significant issues or problems as well as what "went right" during the month.

MLG agrees to furnish the following relating to the performance of the above services:

- Materials, parts, and supplies required to perform any routine repairs or maintenance.
- Construction materials for construction projects.
- Specialized equipment for repair, maintenance and construction, including utility trucks, PE fusion equipment and tools, gas detectors, line locators, trencher, backhoe and accessories. Such equipment is the property of MLG.
- Storage area at MLG property.

EXTRAORDINARY ITEMS OUTSIDE THE SCOPE OF SERVICES

The following are outside the scope of services required to be completed by the Contractor:

- Major repairs caused by fire, flood, explosion, land movement, vehicular damage and similar occurrences which have caused or may cause a safety related condition
- Facility relocations required by jurisdictional agencies
- Major extensions or improvements which require more than 3 worker-days in more than 4 consecutive weeks
- Major facility replacements which require more than 3 worker-days in more than 4 consecutive weeks
- Backhoe operation more than 8 hours per project, or in environmentally sensitive areas or around transmission pipeline or other critical facilities
- Certified welding on steel pipe containing natural gas
- Meter testing and refurbishing
- Environmental disposal and remediation activities

EXHIBIT "B"
STANDARDS OF SERVICE

- The Contractor shall maintain at least 1/3 Full-Time Equivalent (FTE) employee position at all times. One Full-Time Equivalent (FTE) employee position is defined as one or more Contractor-supplied personnel working for the benefit of MLG, on-duty for normal forty (40) hour work weeks for the entire contract month.
- An Employee may be absent for normal leaves including time off beyond the normal work week, vacation, and sick leave as long as adequate system coverage is provided.
- Part-time employees may be used to fulfill the FTE requirement.
- All operating employees shall be covered by DOT-proscribed programs for drug and alcohol testing.
- All employees shall be covered as applicable by DOT-proscribed plans for Operator Qualification for covered tasks and other programs.
- The Contractor's employees shall be expected to perform most services during normal working hours of MLG's customary work week (i.e., M-F excluding observed holidays).
- At least one employee shall remain on-call and be present within MLG's service area for after-hours emergency services (i.e., coverage is expected 24/7).
- At least one back up employee shall be provided for instances of vacation, illness, or training of regular employees. Back up employees are expected to provide regular services and after-hours emergency services for MLG as needed.
- Except when unable due to Force Majeure, Contractor employees shall respond to emergency calls within 45 minutes.
- In addition to regular and backup employees, Contractor may designate and train Emergency Responder personnel to provide emergency response more quickly or efficiently.

EXHIBIT "C"
BASIS OF FEES FOR OPERATION

As detailed in Section 9 of the Services Agreement, MLG shall pay a monthly fee for operating the Mike Little Gas. Such fee shall be paid by the 20th of each month. Fee shall be "cost-plus". MLG shall pay to Contractor a monthly fee equal to the actual costs of operations attributable to the Services Agreement, plus an Operating Margin of 10%.

Contractor's estimated monthly operating costs are outlined herein. Each month Contractor shall invoice MLG for actual costs as known, plus the Operating Margin (Fee).

<u>Item</u>	<u>\$/Month</u>
to be added	

MIKE LITTLE GAS

BY:

Miki Thompson

Date: July 1, 2008

Miki Thompson

KENTUCKY FRONTIER GAS, LLC

BY:

Robert J. Oxford

Date: July 1, 2008

Robert J. Oxford, Manager

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY FRONTIER)
GAS, LLC, BELFRY GAS, INC., FLOYD COUNTY)
GAS (EAST KENTUCKY UTILITIES, INC.), ELAM)
UTILITY COMPANY, INC., AND MIKE LITTLE)
GAS COMPANY FOR APPROVAL OF) CASE NO. 2005-00348
TRANSFER AND ACQUISITION OF ASSETS)
AND STOCK AND ISSUANCE OF A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY, IF NECESSARY)

ORDER

Kentucky Frontier Gas, LLC ("Kentucky Frontier"); Belfry Gas, Inc. ("Belfry Gas"); Floyd County Gas; Elam Utility Company, Inc. ("Elam Utility"); and Mike Little Gas Company ("Mike Little Gas") (collectively "Joint Applicants") have applied for Commission approval of Kentucky Frontier's acquisition of the assets or stock of the other entities. By this Order, we grant the application.

On August 30, 2005, the Joint Applicants¹ applied to the Commission for approval of the proposed transfer of stock or assets. On September 14, 2005, the Commission permitted the Attorney General ("AG") to intervene in this proceeding. On September 16, 2005, the AG and Commission Staff issued discovery requests to Kentucky Frontier. Kentucky Frontier has responded to these requests. The AG has removed for admission into the record of Kentucky Frontier's responses to additional written interrogatories that the AG submitted to Kentucky Frontier outside any

¹ Any reference in this Order to "Existing Utilities" refers to Belfry Gas, Inc., Floyd County Gas, Elam Utility Company, Inc., and Mike Little Gas Company.

established procedural schedule in this proceeding. No party has requested a hearing in this matter.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Belfry Gas, a Kentucky corporation organized pursuant to KRS Chapter 271B, owns and operates facilities providing natural gas service to approximately 560 customers in eastern Pike County, Kentucky.

2. J. W. Kinzer owns 100 percent of all outstanding shares of stock of Belfry Gas.

3. Floyd County Fiscal Court owns facilities that operate under the name of Floyd County Gas and that provide natural gas service to approximately 1,100 customers in Floyd County, Kentucky. Since 1979 Floyd County Fiscal Court has leased these facilities to East Kentucky Utilities, Inc. ("EKU"), a non-profit Kentucky corporation organized pursuant to KRS Chapter 273.² EKU operates these facilities on behalf of the Floyd County Fiscal Court.

4. Elam Utility, a Kentucky corporation organized pursuant to KRS Chapter 271B, owns and operates facilities that provide natural gas service to approximately 475 customers in Morgan County, Kentucky.

5. Wilma Ison owns 100 percent of all outstanding shares of stock of Elam Utility.

² See, e.g., Kentucky Public Service Commission v. Floyd County, Kentucky and East Kentucky Utilities, Inc., Case No. 9478 (Ky. PSC July 10, 1986) at 1.

6. Mike Little Gas, a Kentucky corporation organized pursuant to KRS Chapter 271B, owns and operates facilities that providing natural gas service to approximately 400 customers in southwest Floyd County, Kentucky.

7. The Miki Thompson Successor Trust and the Winnie L. Greer Successor Trust own 50 percent each of all outstanding shares of Mike Little Gas stock.

8. Kentucky Frontier is a limited liability company that is formed under the laws of Colorado and is authorized to conduct business in Kentucky.

9. Kentucky Frontier does not presently own any facilities that provide utility service in the Commonwealth of Kentucky.³

10. Kentucky Frontier has entered into an agreement to purchase for \$750,000 the assets of Belfry Gas, as well as at least 300 farm taps owned by J. W. Kinzer or entities controlled by Mr. Kinzer and Alert Oil & Gas Company, Inc.

11. Floyd County Fiscal Court placed the assets of Floyd County Gas for public sale. On May 25, 2005, Floyd County Fiscal Court accepted Kentucky Frontier's bid to purchase these assets for \$1,075,000.

12. Kentucky Frontier has entered into an agreement with Wilma Ison to purchase the outstanding stock of Elam Utility for \$800,000.

13. Kentucky Frontier has entered into an agreement with the Miki Thompson Successor Trust and the Winnie L. Greer Successor Trust to purchase the outstanding stock of Mike Little Gas for \$475,000.

³ Kentucky Frontier has operated the facilities of Floyd County Gas since August 15, 2005 under the terms of an Operating Agreement executed with ECU. See Application, Exhibit 2.

14. Kentucky Frontier expects the total acquisition cost of these facilities to be \$3.1 million and the total project cost to be \$3.4 million including the cost of regulatory approvals and initial system upgrades.⁴

15. Kentucky Frontier proposes a capital structure that will consist of 30 percent cash equity (\$1,020,000)⁵ and 70 percent long-term debt.

16. The Existing Utilities have issued long-term debt instruments to the Governor's Office of Local Development ("GOLD") for loans from the Gas System Restoration and Development Project ("GSRP"). The Existing Utilities are currently indebted to GOLD in the following amounts:

Floyd County Gas - \$550,000

Elam Utility - \$775,000

Mike Little Gas - \$135,000

17. As a result of the proposed transaction, Kentucky Frontier will incur the following financial liabilities:

a. To purchase Belfry Gas, Kentucky Frontier will borrow \$350,000 from GOLD and \$175,000 from commercial sources.

b. To purchase the assets of Floyd County Gas, Kentucky Frontier will borrow \$550,000 from GOLD and \$200,000 from commercial sources.

⁴ See Kentucky Frontier Gas, LLC, Case No. 2005-00426 (Ky. PSC tendered Aug. 30, 2005), Application at ¶18.

⁵ Id. at ¶12.

c. To purchase Elam Utility, Kentucky Frontier proposes to assume \$450,000 of Elam Utility's existing debt to GOLD, obtain forgiveness of the remaining \$325,000 debt to GOLD, and borrow \$110,000 from commercial sources.

d. To purchase Mike Little Gas, Kentucky Frontier proposes to assume \$135,000 of Mike Little Gas's existing debt to GOLD, borrow an additional \$115,000 from GOLD, and borrow \$85,000 from commercial sources.

18. Upon completion of the proposed transactions, the following persons will be members of Kentucky Frontier and have the following ownership interest:

Industrial Gas Services, Inc.	20 percent
Gilmer Mickey	23 percent
Larry Rich	10 percent
Steven Shute	24 percent
Don Silversmith	23 percent

19. Other than to establish a single Gas Cost Recovery Account ("GCA"), Kentucky Frontier does not propose any immediate changes to the rates, regulations, or conditions of service presently applied to the Existing Utilities' customers. After the proposed transfer occurs, Kentucky Frontier will continue to provide utility service to Elam Utility and Mike Little Gas customers under those utilities' current operating names. It will provide service to customers of Floyd County Gas and Belfry Gas under the name of "Frontier Gas."

20. Kentucky Frontier intends to develop eventually a single rate structure. It anticipates the consolidation of the Existing Utilities will result in greater economies of scale and a combined rate that is lower for the Existing Utilities' customers.

21. Kentucky Frontier intends to initially lease the existing EKU office in Prestonsburg, Kentucky and will evaluate the requirements for a local office central to all utility operations at a later date.

22. Kentucky Frontier's management has extensive experience in the operation and management of gas pipeline and distribution systems.

23. Kentucky Frontier will retain Elam Utility and EKU's full-time operating and maintenance personnel and office personnel at least for the immediate period following the proposed transactions. Kentucky Frontier represents that it will hire additional workers as needed and will initiate an Operator Qualification program for current and future employees.

24. Kentucky Frontier represents that customer service and support will be locally based. It further represents that customers will be able to contact its central office through a local telephone number and that it will establish a 24-hour call center.

25. Kentucky Frontier represents that it will purchase a new billing and support system for the consolidated gas utility and to acquire and deploy drop boxes for personal payment in each area that the consolidated utility serves. It further represents that all payments will be deposited in a local bank and all billing, collections and front-end accounting will be based in Kentucky.

26. Kentucky Frontier has already prepared a draft Operations and Maintenance Manual, a drug and alcohol compliance plan and a draft Operator Qualification plan.

27. Kentucky Frontier has multiple sources of gas available for the acquired systems. One of its shareholders has significant experience in the management of gas supplies.

28. As Kentucky Frontier is purchasing 100 percent of the outstanding stock of Mike Little Gas and Elam Utility, no journal entry is required to reflect the transfer of these utilities. Except for the debt restructurings discussed above, the financial statements of Mike Little Gas and Elam Utility will not change as a result of the transfer. Kentucky Frontier will hold all assets and liabilities of the companies.

29. Kentucky Frontier is purchasing the assets of Floyd County Gas and is assuming its customer deposit liability and liability for accrued interest on customer deposits. Kentucky Frontier is purchasing the assets of Belfry Gas as well as certain farm tap customers and will assume Belfry Gas's liabilities for customer deposits and accrued interest on customer deposits.

30. Kentucky Frontier proposes to record the transfer at the purchase price rather than the original cost as the Uniform System of Accounts Prescribed for Natural Gas Companies ("USoA") requires. Its proposal to record the transaction omits the liabilities related to customer deposits and accrued interest on customer deposits.

31. The USoA requires that plant assets be transferred at original cost along with accumulated depreciation on those assets and that all other account balances being transferred be recorded. Recording the transfer of Belfry Gas and ECU in accordance with the USoA will require Kentucky Frontier to record a plant acquisition adjustment. The plant acquisition adjustment should be amortized over the remaining

life of the assets purchased. The annual amortization may be recorded in account 406, Amortization of Gas Plant Acquisition Adjustments.

Based upon these findings, the Commission makes the following conclusions of law:

1. Belfry Gas, Floyd County Gas, Elam Utility, and Mike Little Gas are utilities subject to Commission jurisdiction.⁶

2. Kentucky Frontier is not a utility and therefore not currently subject to Commission jurisdiction.⁷

3. Kentucky Frontier is a "person" for purposes of KRS Chapter 278.⁸

4. KRS 278.020(5) provides that "[n]o person shall acquire or transfer ownership of, or control, or the right to control, any utility under the jurisdiction of the commission . . . without prior approval by the commission." As Kentucky Frontier is a person and is acquiring ownership of the Existing Utilities, this statute is applicable to and requires Commission approval of the proposed transfer.

5. KRS 278.020(6) provides that "[n]o individual, group, syndicate, general or limited partnership, association, corporation, joint stock company, trust, or other entity (an "acquirer"), whether or not organized under the laws of this state, shall acquire control, either directly or indirectly, of any utility furnishing utility service in this state, without having first obtained the approval of the commission." As Kentucky Frontier is acquiring ownership of the assets of Belfry Gas and Floyd County Gas and control of

⁶ KRS 278.010(3)(b).

⁷ KRS 278.010(3).

⁸ KRS 278.010(2).

Elam Utility and Mike Little Gas through the acquisition of their corporate stock, this statute is applicable to and requires Commission approval of the proposed transfer.

6. Kentucky Frontier has the financial, technical, and managerial abilities to provide reasonable service to the Existing Utilities' present customers.

7. The proposed transfer is in accordance with law, for a proper purpose and is consistent with the public interest.

8. Upon completion of the transaction, Kentucky Frontier will be subject to Commission jurisdiction.

9. The AG's Motion to Introduce Evidence into the Record should be granted.

IT IS THEREFORE ORDERED that:

1. The AG's Motion to Introduce Evidence into the Record is granted.

2. Kentucky Frontier's proposed acquisition of the assets of Belfry Gas and Floyd County Gas and of the corporate stock of Elam Utility and Mike Little Gas is hereby approved.

3. Within 10 days of completion of the proposed transfer, Kentucky Frontier shall notify the Commission in writing of the completion of the transfer.

4. Within 10 days of the completion of the proposed transfer, Kentucky Frontier shall file a signed and dated adoption notice in accordance with 807 KAR 5:011, Section 11.

5. Within 10 days of the filing of its adoption notice, Kentucky Frontier shall issue and file with the Commission in its own name each utility's tariff, or such other tariff as it proposes to put into effect in lieu thereof in the form prescribed in 807 KAR 5:011, Section 11.

6. Within 20 days of the completion of the transfer, Kentucky Frontier shall file the journal entries it proposes to record the Belfry Gas and EKU acquisitions. The acquisitions shall be recorded in accordance with the USoA.

7. The rate-making treatment of the plant acquisition adjustment and any associated costs (i.e., amortization) shall be deferred until Kentucky Frontier's next rate case proceeding.

8. Belfry Gas and EKU shall be responsible for submitting to the Commission their financial and statistical reports, as described in 807 KAR 5:006, Section 3, for the period in 2005 in which they owned and operated the transferred assets.

Done at Frankfort, Kentucky, this 28th day of October, 2005.

By the Commission

ATTEST:



Executive Director

Case No. 2005-00348

Pro Forma - Kentucky Gas LDCs

Calendar Year	2009	2010	2011	2012	2013	2014
Project Year	1	2	3	4	5	6
20-Sep-08						
Cumulative Investment	\$ 2,900,000	\$ 2,918,900	\$ 2,937,800	\$ 2,956,700	\$ 2,976,300	\$ 2,995,900
Additions	\$	\$ 18,900	\$ 18,900	\$ 18,900	\$ 19,600	\$ 19,600
Sales						
Residential - Meters	2,400	2,424	2,448	2,472	2,497	2,522
- Volume (mcf)	144,000	144,960	146,400	147,840	149,320	150,820
- Margin (mcf)	\$4.20	\$4.20	\$4.20	\$4.20	\$4.20	\$4.20
- Meter Fees	\$72,000	\$72,720	\$73,440	\$74,160	\$74,910	\$75,660
- Revenue	\$676,800	\$681,552	\$688,320	\$695,088	\$702,054	\$709,104
Commercial - Meters	320	323	326	329	332	335
- Volume (mcf)	70,400	70,840	71,500	72,160	72,820	73,480
- Margin (mcf)	\$4.20	\$4.20	\$4.20	\$4.20	\$4.20	\$4.20
- Meter Fees	\$9,600	\$9,690	\$9,780	\$9,870	\$9,960	\$10,050
- Revenue	\$305,280	\$307,218	\$310,080	\$312,942	\$315,804	\$318,666
Total Customers	2,720	2,747	2,774	2,801	2,829	2,857
Total Volume (mcf)	214,400	215,800	217,900	220,000	222,140	224,300
Gas Revenue	\$982,080	\$988,770	\$998,400	\$1,008,030	\$1,017,858	\$1,027,770

Pro Forma - Kentucky Gas LDCs

Calendar Year Project Year	2009 1	2010 2	2011 3	2012 4	2013 5	2014 6
20-Sep-08						
Utility Income Statement						
Gas Revenue	\$982,080	\$988,770	\$998,400	\$1,008,030	\$1,017,858	\$1,027,770
Interest on Capital Fund	\$0	\$1,565	\$1,658	\$1,709	\$1,682	\$1,597
Gas Commodity Cost (incl L&U)	\$0	\$0	\$0	\$0	\$0	\$0
Fixed Gas Costs	\$5,440	\$5,494	\$5,548	\$5,602	\$5,658	\$5,714
PUC Assessment	\$540,000	\$546,480	\$553,038	\$559,674	\$566,390	\$573,187
Operating & Maint. Costs	\$14,500	\$14,595	\$14,689	\$14,784	\$14,882	\$14,980
Property Tax	\$77,756	\$41,328	\$51,962	\$67,743	\$77,658	\$82,932
Income Taxes	\$4,833	\$45,105	\$39,112	\$28,182	\$23,398	\$23,529
Deferred Income Taxes	\$339,551	\$337,333	\$335,709	\$333,755	\$331,554	\$329,025
Operating Income	\$123,884	\$129,649	\$136,611	\$143,888	\$151,584	\$159,692
<i>Net Income</i>						
Return on Investment						
Return on Equity	\$139,027	\$142,729	\$147,090	\$152,146	\$157,940	\$164,517
Depreciation (book)	\$96,667	\$97,297	\$97,927	\$98,557	\$99,210	\$99,863
Interest	\$119,000	\$110,387	\$101,171	\$91,310	\$80,759	\$69,469
Allowable Return	\$354,694	\$350,412	\$346,188	\$342,013	\$337,909	\$333,850
Tax Calculation						
Net Revenue (pre-tax & interest)	\$422,140	\$423,766	\$426,783	\$429,680	\$432,610	\$435,486
Tax Depreciation	\$108,750	\$210,060	\$195,706	\$169,012	\$157,706	\$158,686
Interest	\$119,000	\$110,387	\$101,171	\$91,310	\$80,759	\$69,469
Taxable Income	\$194,390	\$103,319	\$129,906	\$169,357	\$194,145	\$207,331
Income Taxes	\$77,756	\$41,328	\$51,962	\$67,743	\$77,658	\$82,932
Income Tax Credit Carryforward	\$0	\$0	\$0	\$0	\$0	\$0

Pro Forma - Kentucky Gas LDCs

Calendar Year Project Year	20-Sep-08					
	2009 1	2010 2	2011 3	2012 4	2013 5	2014 6
Cash Flow & Balance Sheet						
Cash Flow after Interest	\$220,551	\$226,946	\$234,538	\$242,444	\$250,794	\$259,556
Cash Flow after Principal & Dividend	\$58,016	\$21,234	\$20,186	\$18,905	\$17,483	\$15,847
Debt	\$1,700,000	\$1,597,465	\$1,487,753	\$1,370,361	\$1,244,751	\$1,110,349
Common Stock	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000
Retained Earnings (ending)	\$220,551	\$387,497	\$526,035	\$671,519	\$824,384	\$985,030
less accum Depreciation	(\$96,667)	(\$193,963)	(\$291,890)	(\$390,447)	(\$489,657)	(\$589,520)
less Dividends	(\$60,000)	(\$96,000)	(\$96,960)	(\$97,930)	(\$98,909)	(\$99,898)
Shareholders Equity	\$1,263,884	\$1,297,533	\$1,337,185	\$1,383,143	\$1,435,818	\$1,495,612
Debt to Equity Ratio	1.3	1.2	1.1	1.0	0.9	0.7
Equity	43%	45%	47%	50%	54%	57%
Total Capitalization	\$2,963,884	\$2,894,999	\$2,824,938	\$2,753,504	\$2,680,570	\$2,605,962
Capital Additions by Year						
Capitalized Interest	\$2,900,000	18,900	18,900	18,900	19,600	19,600
Beg. Capital Acct Balance	\$2,900,000	\$58,016	\$60,350	\$61,636	\$61,641	\$59,524
Cash Flow after Principal & Dividend	\$58,016	\$21,234	\$20,186	\$18,905	\$17,483	\$15,847
Capital Additions	(\$2,900,000)	(\$18,900)	(\$18,900)	(\$18,900)	(\$19,600)	(\$19,600)
New Equity	\$1,200,000					
New Debt	\$1,700,000					

Pro Forma - Kentucky Gas LDCs

Calendar Year Project Year	20-Sep-08					
	2009 1	2010 2	2011 3	2012 4	2013 5	2014 6
<u>Depreciation by Addition Year</u>	\$108,750	\$209,351 \$709	\$193,633 \$1,364 \$709	\$165,677 \$1,262 \$1,364 \$709	\$153,265 \$1,080 \$1,262 \$1,364 \$735	\$145,000 \$999 \$1,080 \$1,262 \$1,415
Total Depreciation	\$108,750	\$210,060	\$195,706	\$169,012	\$157,706	\$149,755
<u>Interest by Addition Year</u>						
Total Interest Pmt	\$119,000	\$110,387	\$101,171 \$101,171	\$91,310 \$91,310	\$80,759 \$80,759	\$69,469 \$69,469
<u>Principal by Addition Year</u>						
Total Principal Pmt	\$102,535	\$109,712	\$117,392	\$125,610	\$134,402	\$143,810
	\$102,535	\$109,712	\$117,392	\$125,610	\$134,402	\$143,810
<u>Debt</u>	\$1,700,000	\$1,597,465	\$1,487,753	\$1,370,361	\$1,244,751	\$1,110,349

*CTBI terms allow interest-only pmts 2 mos/yr

Assumptions:

Initial Debt Financing	59% financed	Tax Rate	40%
Interest Rate	7.0% per annum	Gas Cost DTH	\$0.00
Return on Equity	11.0% target for ratemaking	Ave Res'l Load mcf	60
Loan Life	10 years amortization	Ave Com'l Load mcf	220
Rate (Book) Life	30 years SL	Growth per yr	1%
Tax Life	20 years (IRS) SL	Payout	50%

Operations & Maintenance Expenses

Kentucky LDCs

Cost Item	Qty	Unit \$	2500 mtrs	Base Case	3000 mtrs	4000 mtrs
<u>Personnel & Salaries</u>						
General Manager		\$60,000	\$36,000	\$40,000	\$42,000	\$60,000
Sr Tech / Marketing Spec		\$45,000	\$45,000		\$45,000	\$45,000
Service Tech		\$30,000	\$60,000	\$125,000	\$90,000	\$120,000
Meter reader		\$24,000	\$18,000		\$24,000	\$36,000
Acctg / Customer Service		\$21,000	\$15,750	\$40,000	\$21,000	\$31,500
Total employees			5.5	5.5	7	9
Total salaries			\$174,750	\$205,000	\$222,000	\$292,500
Vehicles			5.5	6	6	7
<u>Payroll-Related Expenses</u>						
Payroll Expenses - FICA		7.65% of payroll	\$13,368	\$15,683	\$16,983	\$22,376
Payroll Expenses - Workers Comp		0.8% of payroll	\$1,398	\$1,640	\$1,776	\$2,340
Payroll Expenses - Fed & State Unempl Tax		max	\$1,925	\$1,925	\$2,450	\$3,150
Benefits (Medical, Pension)		25% of payroll	\$43,688	\$51,250	\$55,500	\$73,125
General Liability Insurance		20% of payroll	\$34,950	\$41,000	\$44,400	\$58,500

Operations & Maintenance Expenses

Kentucky LDCs

Cost Item	Qty	Unit \$	2500 mtrs	Base Case	3000 mtrs	4000 mtrs
<u>General O&M Categories</u>						
Automobile Expense	\$0.50	12,000 mi/yr	\$33,000	\$36,000	\$36,000	\$42,000
Travel Expense			\$6,000	\$6,000	\$6,000	\$7,000
Office Rental		\$10 / sq ft	\$15,000	\$15,000	\$15,000	\$15,000
Office Utilities			\$6,000	\$6,000	\$6,000	\$6,000
Office Supplies & Expenses		(postage +)	\$10,000	\$11,000	\$12,000	\$16,000
Contractor - Repairs & Maintenance			\$35,000	\$35,000	\$40,000	\$50,000
Design-Safety-DOT			\$20,000	\$20,000	\$25,000	\$30,000
Materials & Supplies			\$3,000	\$3,000	\$3,000	\$3,000
Accounting (outside)			\$10,000	\$10,000	\$12,000	\$14,000
Advertising			\$5,000	\$5,000	\$5,000	\$5,000
Bad Debts			\$10,000	\$10,000	\$12,000	\$16,000
Community Contributions			\$2,000	\$2,000	\$2,000	\$2,000
Corporate			\$50,000	\$50,000	\$60,000	\$80,000
Insurance (stations & personal property)			\$12,000	\$12,000	\$12,000	\$14,000
Legal			\$5,000	\$5,000	\$5,000	\$5,000
Totals			\$492,079	\$542,498	\$594,109	\$756,991

**Kentucky LDC
Rate Analysis**

Company	Eff Date of Tariff	Min Bill	Addl	Gas Cost	estimate weighted average non-gas rate											
					Jan	Feb	Mar	Apr	May	Jun	Jul	Aug				
Alert / Kinzler farm taps	15-Mar-01	3.95	3.95		\$43.37	\$28.91	\$24.10	\$19.28	\$9.64	\$7.23	\$7.23	\$7.23				
		1st MCF	Addl		18%	12%	10%	8%	4%	3%	3%	3%				
					11.0	7.3	6.1	4.9	2.4	1.8	1.8	1.8				
Belfry Gas Co.	17-Dec-04	4.27	2.72		\$31.42	\$21.46	\$18.14	\$14.82	\$8.19	\$6.53	\$6.53	\$6.53				
		1st MCF	Addl		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00				
East Kentucky Utilities	1-Feb-05	10.00	5.26		\$62.49	\$43.24	\$36.83	\$30.41	\$17.57	\$14.37	\$14.37	\$14.37				
		1st MCF	Addl		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00				
Elam Utility Co.	17-Dec-04	6.15	mo chg		\$53.36	\$37.63	\$32.38	\$27.13	\$16.64	\$14.02	\$14.02	\$14.02				
		4.30			\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00				
		all mcf														
Mike Little Gas Co.	1-Aug-04	5.50	4.33		\$48.71	\$32.87	\$27.58	\$22.30	\$11.74	\$9.09	\$9.09	\$9.09				
		1st MCF	Addl		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00				
B & H Gas CO.	7-Dec-04	4.79	1.98		\$24.55	\$17.30	\$14.89	\$12.47	\$7.64	\$6.43	\$6.43	\$6.43				
		2 MCF	next 8													

**Kentucky LDC
Rate Analysis**

Company	Sep	Oct	Nov	Dec	Total	Residenti Meters	% of Meters	Weightd Contribn
	3%	8%	12%	16%	100%			
	1.8	4.9	7.3	9.8	61 MCF			
Alert / Kinzer farm taps	\$7.23	\$19.28	\$28.91	\$38.55	\$240.95	300	12%	\$30
Belfry Gas Co.	\$6.53	\$14.82	\$21.46	\$28.10	\$184.52	453	19%	\$34
	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			\$3.02
East Kentucky Utilities	\$14.37	\$30.41	\$43.24	\$56.08	\$377.74	806	33%	\$125
	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			\$6.19
Elam Utility Co.	\$14.02	\$27.13	\$37.63	\$48.12	\$336.10	310	13%	\$43
	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			\$5.51
Mike Little Gas Co.	\$9.09	\$22.30	\$32.87	\$43.43	\$278.17	323	13%	\$37
	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			\$4.56
B & H Gas CO.	\$6.43	\$12.47	\$17.30	\$22.13	\$154.50	240	10%	\$15
					\$154.50			\$2.53

**Kentucky LDC
Rate Analysis**

Company	Eff Date of Tariff	Min Bill	Addl	Gas Cost	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
					18%	12%	10%	8%	4%	3%	3%	3%
					<i>estimate weighted average non-gas rate</i>							
Consolidated companies					11.0	7.3	6.1	4.9	2.4	1.8	1.8	1.8
Proforma model		\$2.50	no chg		\$48.62	\$33.24	\$28.12	\$23.00	\$12.75	\$10.19	\$10.19	\$10.19
		\$4.20	all mcf		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
		\$286	annual non-gas rev									

**Kentucky LDC
Rate Analysis**

Company	Sep	Oct	Nov	Dec	Total	Residenti Meters	% of Meters	Weightd Contribn
	3%	8%	12%	16%	100%			
	1.8	4.9	7.3	9.8	61 MCF			
Consolidated companies						2432	100%	\$284 average ai
Proforma model	\$10.19	\$23.00	\$33.24	\$43.49	\$286.20			\$286
	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			\$4.69

All utilities listed

Kentucky County Census Data

KY (21)	County	Major City	US Census population								density per sq mi	Co. area sq mi
			1950	1960	1970	1980	1990	2000	2003 est	2006 est		
	Floyd	71 Prestonsburg	53,500	41,642	35,889	48,764	43,586	42,441	42,272	42,282	108	394
	Morgan	175 W Liberty	13,624	11,056	10,019	12,103	11,648	13,948	14,278	14,306	37	381
	Pike	195 Pikeville	81,154	68,264	61,059	81,123	72,583	68,736	67,495	66,860	87	788
	Totals		148,278	120,962	106,967	141,990	127,817	125,125	124,045	123,448	82	1,563
						vs. 1990 >		-2.1%	-3.0%	-3.4%		
	Kentucky	21	2,944.8	3,038.2	3,218.7	3,660.7	3,685.3	4,041.8	4,117.8	4,206.7	102	39.7
						vs. 1990 >		9.7%	11.7%	14.1%		
	USA		151,326	179,323	203,302	226,542	248,710	281,422	291,000	299,398	80	3,537.4
						vs. 1990 >		13.2%	17.0%	20.4%		

Kentucky County Census Data

KY (21)	2000	Home Heating					
		Occ Uts	Util gas	LPG	Elect	Htg Oil	Other
Floyd	16,881	7,277	592	8,317	298	397	
Morgan	4,752	366	1,548	2,026	169	596	
Pike	27,612	5,560	726	19,632	852	842	
Totals	49,245	13,203	2,866	29,975	1,319	1,835	
		27%	6%	61%	3%	4%	
Kentucky	2000 >	1,590.6	44%	10%	39%	3%	4%
	1990 >	1,379.8	46%	8%	30%	5%	12%
	1980 >	1,263.4	51%	8%	23%	7%	12%
USA	2000 >	105,480	51%	7%	30%	9%	3%
	1990 >	91,947	51%	6%	26%	12%	5%
	1980 >	80,390	53%	6%	18%	18%	5%

INDUSTRIAL GAS SERVICES, INC.

Industrial Gas Services, Inc. (IGS) is a privately-owned company engaged in:

- The design, construction, and operation of gas **pipelines serving industrial plants**, cogeneration and power plants, and municipalities.
- The design, construction, and operation of **gas distribution systems** for residential, commercial and industrial customers.
- **Exploration and development of oil and natural gas fields**, including the completion of wells and the gathering and processing of natural gas, the operation of production and transportation facilities.
- The application of special gas technology, including the compressing of **natural gas for use in motor vehicles**, and the processing of **natural gas streams contaminated by H₂S, CO₂, and N₂** as examples; and
- Providing consulting services, including **oil and gas reserve analysis, engineering design, evaluation and cost estimates, and project management, for virtually all phases of the oil and gas industry.**

IGS has been incorporated since 1972 and has a very capable staff with extensive experience in the development of oil and gas production, and the design, construction, and operation of gas gathering and processing facilities, industrial pipelines and gas distribution systems. **The company currently operates three natural gas pipelines serving industrial facilities; one in Wyoming for General Chemical, one in Oregon serving Oremet-Wah Chang, and one in Washington state for Weyerhaeuser.**

In addition to its consulting services, IGS owns working interests in approximately 40 oil and gas wells in Wyoming and Colorado. IGS built, owned a portion of, and (until 1/1/89) operated a 100,000 MCF per day gas processing plant in Southwestern Wyoming.

The Company in the past has conducted exploration programs for private industries and for partnerships.

IGS worked with an electric power plant developer in Bellevue, Washington, to determine the feasibility of constructing and operating two pipeline systems in Washington. IGS has formed three joint venture companies; Frontier Energy, to construct over 700 miles of pipeline system in North Carolina to serve a seven-county area with natural gas; Ozark Natural Gas Company to serve Branson, Missouri and surrounding communities through 180 miles of pipeline system; and Penny Natural Gas, LLC to construct and operate 285 miles of gas distribution lines in three Pennsylvania and one New York county.

IGS had its beginning in 1968 as a management and engineering consulting firm, specializing in gas contracts and gas development, marketing, processing and transmission.

In 1972, IGS was incorporated when substantial work was being done for industries that use natural gas as fuel or feedstock. IGS diversified upstream into exploratory and development drilling activities and downstream into gas distribution.

Over its 32 years, IGS has provided consulting services for more than 100 clients. Following are some of the programs that IGS considers to be representative of its work.